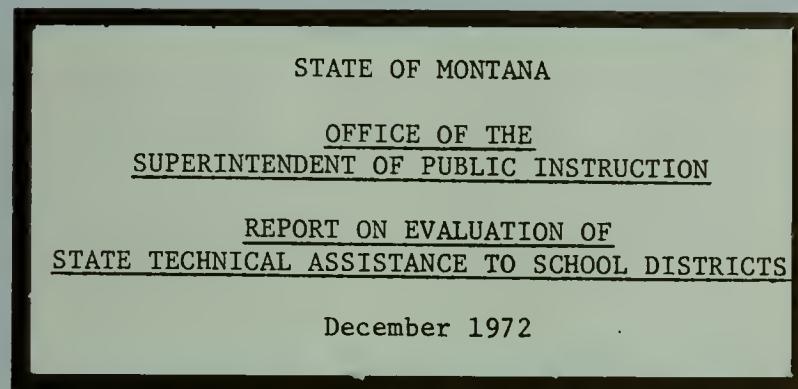


S
353.824
L72SPIRE
1972

STATE DOCUMENTS

DEC 20 1972

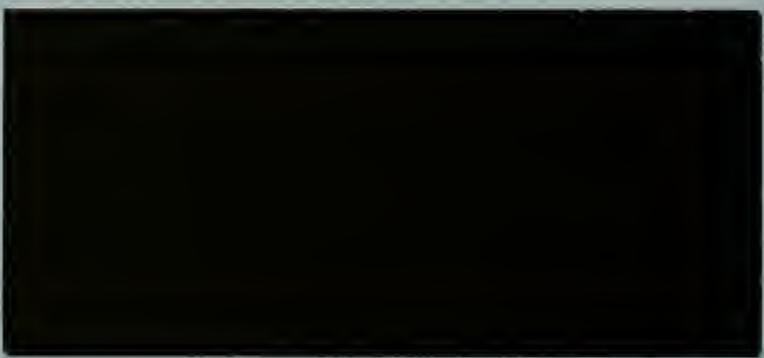


OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

MONTANA STATE LIBRARY



3 0864 1002 3836 2



STATE OF MONTANA

OFFICE OF THE
SUPERINTENDENT OF PUBLIC INSTRUCTION

REPORT ON EVALUATION OF
STATE TECHNICAL ASSISTANCE TO SCHOOL DISTRICTS

December 1972

TABLE OF CONTENTS

	<u>Page</u>
Elective, Appointive, and Administrative Officials	ii
Summary of Recommendations	iii
Scope of Evaluation and Transmittal	1
Comments:	
General	2
Centralized Investment	4
Bond Issue Planning and Marketing Service	10
Cooperative Purchasing for School Districts	17
School Insurance	25
Fidelity Bonds for School Districts	29
Other Areas of Possible State Assistance to School Districts:	31
Computer Service	32
Architectural and Engineering Services	33
Other Services	35
Concluding Comments	35

ELECTIVE, APPOINTIVE, AND ADMINISTRATIVE OFFICIALS

STATE BOARD OF EDUCATION

Ex Officio

Hon. Forrest H. Anderson, Governor, President of the Board

Hon. Robert L. Woodahl, Attorney General

Hon. Dolores Colburg, Superintendent of Public Instruction

Appointive

Mrs. Marjorie King	Winnett	1973
Boyton G. Paige	Philipsburg	1974
John D. French	Ronan	1975
Fred H. Mielke	Havre	1976
T. T. Heberly	Havre	1977
Mrs. Harriett Meloy	Helena	1978
Rt. Rev. Msgr. Anthony M. Brown	Great Falls	1979
Mrs. Louise R. Galt	Helena	1980

OFFICE OF THE STATE SUPERINTENDENT
OF PUBLIC INSTRUCTION

Dolores Colburg	Superintendent of Public Instruction
Harold Rehmer	Assistant Superintendent

SUMMARY OF RECOMMENDATIONS

Page

Consider requesting legislation to establish a school district investment pool under the State Uniform Investment Program and establish the necessary procedures to include all school districts' surplus cash in the program.	9
Consider requesting legislation to repeal the requirement of ratable deposits of school district moneys.	9
Review other current legislation and request repeal of statutes which would prohibit or conflict with the establishment of an investment pool.	9
Initiate an evaluation of the extent of the need for the state to assist school districts in the planning, marketing, and servicing of their bond issues.	16
Seek any needed legislation to permit the implementation of a system of state assistance for debt management to school districts.	17
Implement a system to provide assistance to school districts for their debt management programs.	17
Evaluate purchasing practices in school districts to identify items that can be purchased at a cost savings through the centralized state purchasing function.	24
Request any needed legislation to permit school districts to utilize the centralized state purchasing function.	24
Coordinate such purchases with the school districts and the State Department of Administration.	24
Develop a system of providing assistance to school districts in identifying and obtaining property and liability insurance.	28
Provide guidelines to school districts for determining the extent of fidelity bond coverage necessary.	31
Consider seeking legislation requiring school districts to obtain fidelity bond coverage for selected employees and officials.	31
Explore and implement, if feasible, a statewide fidelity bond covering the appropriate employees and officials of all school districts.	31

SUMMARY OF RECOMMENDATIONS (Continued)

Page

Identify other areas where administrative and technical services can be provided to school districts by the state.

35

Devise the procedures necessary to deliver these services to school districts.

35

MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

G. DEAN REED, C.P.A.
DEPUTY LEGISLATIVE AUDITOR



STATE OF MONTANA
Office of the Legislative Auditor
STATE CAPITOL
HELENA, MONTANA 59601

The Legislative Audit Committee
of the Montana State Legislature:

We have evaluated and examined certain activities of the Office of the State Superintendent of Public Instruction concerning administrative assistance to school districts. Our examination was made in accordance with generally accepted auditing standards and included such auditing procedures as we considered necessary in the circumstances.

This report includes the comments and recommendations resulting from our evaluation of selected areas of possible administrative assistance to school districts. All of the recommendations are addressed to the State Superintendent's Office; however, all recommendations involve cooperation or consultation with the State Department of Administration, so we are providing copies of this report to that department.

In addition, since the matters presented in this report affect the administration and operation of the school districts, we are forwarding copies of the report to the Montana School Board Association.

We submit the following comments and recommendations.

COMMENTS

GENERAL

The State Superintendent's Office, in cooperation with other state agencies, has the capability to make a significant contribution to the administration and operation of the school districts in Montana. We noted several different areas administered solely and directly by the school districts where the Superintendent's Office can provide assistance, advice, and guidelines which should improve the efficiency and result in economic savings to the school districts.

Section 75-5706(12), R.C.M. 1947, provides that it is the duty of the Superintendent's Office to "faithfully work in all practical and possible ways for the welfare of the public schools of the state." The increased concern of the taxpayers in the state over rising taxes caused by the rising costs of education has been evident over the last several years. Because of the rising cost of education, it is even more important that the State Superintendent's Office seek and examine all areas where savings can be effected through advice and assistance from the state.

If the Superintendent's Office can provide a service which will reduce costs in school districts, such services should be considered and implemented when possible.

The Superintendent's Office provides many educational services to schools and school districts. However, few services are provided in the areas of administration. We identified several areas where we believe administrative support services are possible, as follows:

1. Purchasing.
2. Investments.
3. Planning and Marketing of Bond Issues.

4. Insurance.
5. Engineering and Architecture.
6. Data Processing.

Most of the school districts lack the expertise or size to implement effective and efficient methods to administer these needed services. The state, on the other hand, has developed sophisticated methods in some of these areas, and making this state capability available to school districts, in our opinion, could reduce the overall costs of education in the state.

There is an absence of information at the Superintendent's Office concerning the methods, procedures, etc., followed by the school districts to obtain these services.

Since there was little information concerning problems in administrative service areas, we circulated a questionnaire which was designed to provide information in the above identified areas as to the need for such services. We sent this questionnaire to all first class school districts and 10% of all second and third class school districts. In addition, we requested the Municipal Regulation Division of the State Department of Intergovernmental Relations to complete five additional questionnaires for school districts presently being audited, which were not included in our sample. Of the 67 questionnaires that we sent out, we received 35 responses. In districts which included both elementary and high schools we requested and received information on both. Some of the responses were inadequate in certain areas and could not be used in that area, yet they could be used in other areas. As we discuss each area in this report, the responses to the questionnaire differ because of the usableness of the responses in each area.

Our comments and recommendations concerning these various subjects follow.

CENTRALIZED INVESTMENT

Our review of school district investments disclosed that improvements can be made in the investment function. Although some school districts do invest surplus money, many school district moneys are not invested, while others invest their money at interest rates which could be increased.

School district moneys are in the custody of county treasurers, who maintain separate accounts designating the nature and purpose of the moneys. Section 16-2618(8), R.C.M. 1947, provides that:

"Whenever in the judgment of the trustees of any common school district, high school district, or county high school it would be advantageous to invest any money of such school or school district . . . such governing body may in its discretion direct the county treasurer to make such investments."

During the year there are significant sums of school district moneys available for investment. Although the responses to our questionnaire were limited in the area of investments, there was clear evidence that much school district money is available for investment, but uninvested. The following table shows the information developed from the questionnaire. The first two columns of the table depict average cash balances as reported by the responding districts; however, it is not certain that the responses provide cash balances as requested. If they are correct, the entire amount would be uninvested, but some districts may have included invested cash in their response. The last two columns depict the average monthly cash balances of the school districts that indicated they did not have any investment program, and therefore none of the reported cash was invested.

<u>Type of District</u>	<u>All School Districts Responding to Questionnaire</u>		<u>School Districts Indicating No Investment Program</u>	
	<u>No. of Districts</u>	<u>Average Monthly Cash Balance</u>	<u>No. of Districts</u>	<u>Average Monthly Cash Balance</u>
First Class	8	\$4,075,983	2	\$ 765,624
Second Class	8	622,711	4	364,635
Third Class	<u>9</u>	<u>248,137</u>	<u>8</u>	<u>152,147</u>
Total for Responding Districts	<u>25</u>	<u>\$4,946,831</u>	<u>14</u>	<u>\$1,282,406</u>

An analysis of the school district responses received and additional audit effort leads to two obvious facts. First, small school districts have very limited or, in most cases, nonexistent investment programs. In our opinion, this is due to the limited amounts of cash available at the individual school district level and the absence of professional guidance and advice in the investment area. This places the small school districts at a disadvantage in contrast to the larger school districts because they do not have the opportunity to increase the district moneys through investment and, as a consequence, do not have the opportunity to spend the equivalent amount per pupil as the larger schools.

A second fact is that varying rates of interest are being received by school districts who have investment programs. The rate of interest varies with the length of time and amount of money invested. For example, one school district received a 4 percent interest rate on \$5,000 invested for 90 days, while another district, able to invest a larger amount for a longer period, received 5.875 percent on \$438,000 invested for 135 days. However, we also noted considerable variances in interest rates for approximately the same amount of money invested for the same time

period. For example, one school district received 4.75 percent on \$250,000 for 60 days, and the same school district received 3.50 percent interest on \$212,000 for 60 days from another bank located in the same city during the same period.

We believe that the interest rate within and between school districts' investments is caused in part by a statutory restriction on the depositing of moneys, the amount of money available, and the degree of investment expertise at the school districts.

Section 16-2618(4), R.C.M. 1947, provides that:

"When more than one bank is available in any county, for the deposit of county funds, or in any city or town for the deposit of city or town funds, such deposits shall be distributed ratably among all of such banks qualifying therefor, substantially in proportion to the paid-in capital and surplus of each bank"

Since school district moneys are under the custody of the county treasurer, it has been determined by the State Attorney General that investments must be made ratably among the banks. This has resulted in variances in interest rates and, in our opinion, limited the school districts from obtaining increased earnings on their investments in two ways. One, it restricts the ability of the districts to negotiate higher rates, and two, prohibits the investment of larger sums of money in one security at the financial institution paying the highest interest rates. The following schedule reflects the investments and interest rates of one school district where moneys were invested in several banks as of July 1972.

<u>Bank</u>	<u>Amount of Investment</u>	<u>Terms</u>	<u>Interest Rate</u>
A	\$473,000	90 days	5%
B	100,000	30 days	4%
C	167,000	30 days	3-1/4%
C	212,000	60 days	3-1/2%
D	250,000	60 days	4-3/4%

As shown above, the difference in interest rates is significant and if the amounts invested could have been grouped to purchase one or two securities, the district could have obtained higher interest rates.

In another county, the county treasurer had invested \$1,840,000 of school districts' moneys in nine different banks in the county. As of November 1972, there were 20 securities outstanding, all for 180 days and the interest rate was 5 percent on 18 of the 20 securities. The remaining securities were earning interest at rates of 4-1/2 and 5-1/4 percent.

We believe that the above mentioned statute should be repealed so that school district moneys, whether invested by the school trustees or under a central plan as discussed below, can be invested at the most advantageous rate to the school districts.

We believe that school district moneys invested under the State Unified Investment Plan would greatly benefit the school districts. The state, under the Board of Investments, has established an active investment program which has assumed the investment function of nearly all state agencies. The statutes, which established the Unified Investment Plan, allows the Board of Investments to invest school district moneys upon request. We were advised by the administrator of the state investment program that the best method of investing school district moneys

would be under a "pool" concept. Basically the investments would be made from a pool of school district moneys and the interest earned would be credited to the school districts in proportion to the amount and length of time the school districts' moneys were in the pool. Under this concept, school district moneys could be consolidated and invested by professional personnel who are trained and experienced in the field. This would undoubtedly assist school districts who presently have limited or nonexistent investment programs and probably provide higher interest rates for the larger schools who are investing surplus moneys. For example, we previously mentioned a county receiving a 5 percent interest rate on nearly all its 180-day securities. As of June 30, 1972, the State Board of Investments was receiving 5-1/4 percent on its 180-day securities.

We believe that the State Superintendent's Office and the State Board of Investments should consider establishing a school district investment pool, under the Unified Investment Plan. The pool could be started by placing the state equalization aid payments in the pool for investment and distribution of the moneys to districts on a need basis. This current year the State Superintendent's Office will make five distributions of state aid totaling over \$40,000,000. After the pool is established and operating, school districts could be encouraged to place the surplus county and district revenues in the pool for investment.

The consideration of such a program is appropriate at this time because of the new Constitution which provides under Article VIII (Revenue and Finance), Section 13: Investment of Public Funds:

"The legislature shall provide for a unified investment program for public funds and provide rules therefor, including supervision of investments of surplus funds of all counties, cities, towns, and other local governmental entities."

RECOMMENDATION

We recommend that the State Superintendent's Office, in cooperation with the State Board of Investments:

1. Consider requesting legislation to establish a school district investment pool under the State Uniform Investment Program and establish the necessary procedures to include all school districts' surplus cash in the program.
2. Consider requesting legislation to repeal the requirement of ratable deposits of school districts moneys (Section 16-2618(4), R.C.M. 1947).
3. Review other current legislation and request repeal of statutes which would prohibit or conflict with the establishment of an investment pool.

BOND ISSUE PLANNING AND MARKETING SERVICE

Our review of the school districts' bond issue practices disclosed that assistance in the area of bond issue planning and marketing is needed.

To determine the extent of issuance of bonds by school districts, we obtained from the Municipal Regulation Division of the State Department of Intergovernmental Relations a list of all bond issues outstanding in first and second class districts and third class districts maintaining a high school. The total of the outstanding bonds as of June 30, 1971, was \$9,758,566.

The following table illustrates the extent of school district bond issues in Montana for the past 10 years:

<u>Year of Issues</u>	<u>No. of Issues</u>	<u>Total Amount</u>	<u>Highest Bond Interest Rate</u>	<u>Lowest Bond Interest Rate</u>	<u>Largest Bond Issue</u>	<u>Smallest Bond Issue</u>
1971	7	\$ 3,358,000	6.00%	4.10%	\$1,555,000	\$22,000
1970	7	1,255,100	6.00%	5.47%	361,900	31,000
1969	15	5,649,277	6.00%	4.45%	1,720,000	65,000
1968	24	11,489,065	6.00%	3.50% ⁽¹⁾	3,260,000	8,500
1967	37	8,903,213	5.00%	3.25% ⁽¹⁾	1,450,000	20,000
1966	36	17,901,413	5.06%	1.80% ⁽¹⁾	3,289,000	18,000
1965	31	10,010,624	5.00%	2.74%	2,000,000	4,000
1964	24	3,034,468	4.50%	2.40% ⁽¹⁾	515,000	14,000
1963	23	5,925,144	5.00%	2.20% ⁽¹⁾	1,326,000	5,000
1962	<u>25</u>	<u>13,482,154</u>	4.15%	1.70% ⁽¹⁾	3,000,000	28,454
Total	<u>229</u>	<u>\$81,008,458</u>				

(1) Bonds were broken down by year expiring, and the above interest rate represents the lowest interest rate of the broken bond issue.

On the average, almost two bond issues a month have been made by school districts in Montana, and this does not include bond issues by third class districts which do not maintain a high school. There were a total of 710 public school districts as of October 1, 1971.

If school district officials decide that the district needs money to build a new building and to raise the money by issuing bonds, the school district board of trustees are basically responsible to assure that all requirements are met. The trustees are guided by the Montana laws regarding the issuance of school district bonds (Sections 75-7102 through 7138, R.C.M. 1947). The county attorney for the county in which the school district is located often provides some assistance. At the state level, the only assistance available is a "packet" of forms suggesting what the bond transcript should consist of and a list of proceedings for issuing school district bonds.

In Montana over one-half of the elementary school districts are third class districts, which are districts of 1,000 students or less. Many of the operating high school districts in the state are also small districts. It is impractical for these districts to maintain expertise at the district level for the planning and issuance of school district bonds. Most of the work regarding preparation for bond issues in the smaller school districts at least, is often done by the district clerk.

Because of this lack of expertise, some school districts still have problems with the issuance of bonds. We were advised that officials of one third-class district did not know what information was available at the state level (the "packet" of forms). Because of this, they proceeded with a bond issue to the point of sending it to the bonding company. The bond company's counsel replied with a list of improper items regarding the transcript of proceedings. They included failure to:

1. Include the date of the election in the resolution.
2. Properly complete the tally sheets regarding the election.
3. Comply with Section 75-7118, R.C.M. 1947, in the material covered in the resolution.
4. Adopt the resolution within the required length of time after the election.

In advertising the same of bonds (\$385,320), this same district published advertisements in a national publication, as is permitted by the law. However, after the ad had run for some time, the district officials were informed by a bond house that the ad was improper. The district officials had to correct the ad and run it again. The cost to this district for advertising, including the ad that was in error, was approximately \$3,500.

When the bonds for this school district were printed, the bonds were incorrectly dated one month prior to actual issue. This could have cost the district an extra month's interest, or the cost of reprinting the bonds. However, the bonding company acknowledged the intent of the school district and did not require reprinting.

After the bonds were sold, the school district deposited the proceeds of the sale in the bank and the proceeds were invested because the money was not immediately needed. However, due to the school district officials' lack of experience in handling such matters, they had to register warrants because they tied up the proceeds for too long a period of time.

From the above related experiences of a small school district, it is evident that something should be done to aid school districts in planning and issuing bonds. We believe that many of the above problems would have been avoided if the school district had expert advice or assistance available.

We sent a questionnaire to school districts to determine if they felt the need for such assistance. Of those school districts that had recently issued bonds that we questioned, the majority wanted some assistance. The results of the survey were as follows:

<u>Class District</u>	<u>No. Districts Responding</u>	<u>Interested in Service</u>	
		<u>Yes</u>	<u>No</u>
First	11	10	1
Second	11	8	3
Third	<u>11</u>	<u>3</u>	<u>8</u>
Total	<u><u>33</u></u>	<u><u>21</u></u>	<u><u>12</u></u>

Of the six districts responding that had a bond issue within the past three years, only one indicated no interest in state assistance.

As early as 1962, the Council of State Governments recognized the need for such state assistance to local governments. In the publication "Suggested State Legislation," they stated:

"States have an inescapable interest in and concern with the quality of debt management practices of their local governments. Each community's practice is a matter of statewide concern because a blemish on its credit standing, perhaps on only a single bond issue, tends to affect the money market's judgment of other local bond issues in that state. It is appropriate and desirable therefore that state governments provide technical assistance in debt management to their cities, towns, counties and other local units in forms and in extent appropriate for their particular circumstances."

Some states have gone as far as to establish state "bond banks," which handle all aspects of issuing bonds for local governments, including "packaging" them into larger, more marketable issues. Among some of the advantages of a bond bank system are the reduction of total overhead costs on bond issuances and the possible availability of lower interest rates through larger issues with a better credit rating. To determine the feasibility of such a system in Montana would involve a comprehensive study of all issues of all local and state governments and the bond market in general. Some states that have studied the situation have created bond banks, others have not. Vermont operates a successful bond bank, but studies in Hawaii showed that they have too few local issues

to warrant such a comprehensive financing agency, and in Oklahoma, the spread of the market ratings between local government issues and state government issues was so narrow that it was determined a bond bank would serve little purpose.

In another state, the credit rating of school bond issues improved dramatically because the rating took into account the state's commitment to pay the principal and interest on such bonds. In fact, the state officials report that the state will realize an estimated savings of \$35 million in interest.

Many officials in Montana have expressed the belief that the state would not allow a school bond issue to go into default without providing financial assistance. If this is the case, in our opinion, the state should consider reducing this commitment to writing if it will improve the creditability of the school bond issues.

In addition to the credit rating of bond issues, as discussed above, and the bond market conditions at the time of issuance, it is generally agreed that the size of the bond issue affects the interest rates. Basically, the larger issues, other factors being equal, receive lower interest rates. In this regard, the state may also be able to assist school districts through the consolidation of smaller issues. Larger issues attract more investors, enhance competitive bidding, and result in lower interest rates. For the state to prepare consolidated bond issues would require the establishment of various administrative procedures and may require changing existing statutes; however, we believe that this is another method by which the state may be able to assist school districts in the marketing of their bond issues.

The Superintendent's Office is charged by law with working ". . . in all practical and possible ways for the welfare of the public schools of the state." Since public schools must depend on bond issues to build schools, a practical way to help the public schools is to render assistance in the planning and marketing of bonds.

The bond bank concept, the guarantee of interest and principal payments, and the consolidation of bond issues are only three methods by which the state may be of service and assistance.

Other less comprehensive methods by which the Superintendent's Office, in cooperation with state agencies, could provide assistance are:

1. Sponsoring at regular intervals, training and educational programs on debt management procedures and practices for the benefit of school district officials.
2. Maintenance of a central file of debt and related data for all school districts to provide ready access to official data, on a comparable basis, for the benefit of local government officials, security underwriters, investors, security analysts, and interested citizens. The ready availability of this information would benefit school districts by insuring that those evaluating their obligations had access to information on their fiscal situations.
3. Advise school district officials on procedures for improving debt management when it appears that their borrowing practices with respect to method of financing, size of issue, maturity schedule, timing of sale, advertising, etc., do not appear to be in accordance with the local units' best interest.

4. Handle the marketing of the individual bonds for school districts on a request basis. Communities with infrequent transactions with the money market can in this way be given access to the highly specialized skills involved in preparing a bond issue for sale and timing it so as to secure for the school district the best terms available in a continually changing money market.

Some of the above possibilities may involve legislative changes in order to implement them, due to the present structure of Montana laws regarding school district bond issues. Presented above has been what we believe to be a number of methods that could be initiated by the state to assist school districts in the planning and marketing of their bond issues and, at the same time, achieve a more efficient and economical system.

Accordingly, we are recommending that the Superintendent's Office determine the extent of school district bond problems, devise methods to solve them, and propose legislation where necessary to accomplish this. Because of the potential applicability of these needs to other units of local and the state government as well, we are recommending that the needs be evaluated in consultation with the State Department of Administration.

RECOMMENDATION

We recommend that the State Superintendent's Office, in consultation with the State Department of Administration:

1. *Initiate an evaluation of the extent of the need for the state to assist school districts in the planning, marketing, and servicing of their bond issues.*

2. Seek any needed legislation to permit the implementation of a system of state assistance for debt management to school districts.
3. Implement a system to provide assistance to school districts for their debt management programs.

COOPERATIVE PURCHASING FOR SCHOOL DISTRICTS

Our review of purchasing practices in school districts disclosed an opportunity to effect cost savings by allowing school districts to purchase certain types of goods through the centralized state purchasing function administered by the State Department of Administration.

School board trustee reports filed with the State Superintendent's Office disclosed that the following amounts were expended during the three fiscal years 1968-69, 1969-70, and 1970-71, in all school districts in the state for supplies and equipment items:

	<u>1970-71</u>	<u>1969-70</u>	<u>1968-69</u>
Administrative supplies	\$ 338,793	\$ 322,199	\$ 239,493
Teaching supplies	2,913,832	2,699,448	2,362,285
Other supplies	804,339	741,738	633,668
Buses	249,243	192,094	146,962
Other equipment	<u>1,818,835</u>	<u>2,326,990</u>	<u>1,994,067</u>
Total	<u>\$6,125,042</u>	<u>\$6,282,469</u>	<u>\$5,376,475</u>

Responses to questionnaires disclosed the following regarding the use of competitive bids among school districts. Six of the nine first class districts responding to our questionnaire purchased 70% or more of the products by direct purchase without competitive bids. Six out of seven second class districts responding purchased 90% or more of their products without competitive bids. Ten of the twelve third class districts purchased 99% to 100% of their needs by direct purchase.

The responses from the questionnaire indicated that a wide range of prices were paid for similar types of supplies and equipment. The schedule below illustrates the range of prices paid and the quantity purchased for selected items.

<u>Unit</u>	<u>Issue</u>	<u>High Price</u>	<u>Quantity Purchased</u>	<u>Low Price</u>	<u>Quantity Purchased</u>
Ream	Duplicating Paper (8-1/2" x 11") 20#	\$0.92	140	\$0.67	16,000
Ream	Duplicating Paper (8-1/2" x 14") 20#	2.07	15	0.74	3,000
Ream	Penmanship Paper	1.43	6	0.61	1,580
100	Ditto Masters, 8-1/2" x 11"	6.30	30	1.75	1,000
Ream	Drawing Paper 60# White	5.31	14	1.65	264
Gross	Pencils, No. 2 Lead	9.00	1	2.63	75
Dozen	Pencils - Beginners	1.15	12	0.28	1,800
100	Letter Size Folders	3.80	3	1.55	680
Gallon	Floor Wax	6.32	6	2.65	1,500

The above schedule confirms a basic premise that purchasing in a large quantity results in obtaining a lower unit cost of the item purchased. To a school district, especially a small one, it is virtually impossible to take advantage of volume buying unless purchases are made through a cooperative group that negotiates prices with suppliers, based on the combined needs of the group. The vendor in turn receives assurance that all participants will purchase the contracted supplies through the cooperative group.

In other states, school districts have achieved the economics of volume buying through cooperative purchasing. The North Dakota School Study Council has developed a cooperative buying system that benefits 14 of the largest districts and covers approximately 45% of the total pupil enrollment in the state. We were informed that one school district with an enrollment of

11,000 saved \$25,000 last year using the cooperative purchasing approach.

The only cooperative purchasing system among school districts in Montana is in the Flathead area and covers the schools in Flathead County plus Ronan and Polson districts in Lake County. This function has been serving the Kalispell area districts for several years, and we were advised that it has been effective in realizing lower prices, particularly to the small rural schools in that area.

Cooperative or centralized purchasing is advantageous for several reasons.

1. It makes volume purchasing and the resulting lower unit prices available to participants.
2. It assures quality of goods purchased through the achievement of standardization and superior specifications.
3. It subjects to competitive bidding items that individually would not be competitively bid because of the size of the purchase contemplated.
4. It reduces the overhead cost of buying by reducing the number of personnel involved in buying, i.e., each school would not have to have purchasing experts on their staff.

Competitive bids can be obtained from vendors by a cooperative or centralized purchasing unit either for a specific quantity of a certain supply item at a particular time or for a limited or unlimited quantity of a certain supply item on an as needed basis at a pre-established price.

Municipal governments in many states are utilizing state contracts negotiated by purchasing units in state government. In New Jersey, municipalities, counties, and school districts have reported substantial savings by purchasing materials, supplies, and equipment on contracts obtained by the purchasing division of that state. In Minnesota, savings of from 10

to 50 percent have been reported for certain commonly used items purchased by municipalities, counties, and school districts through a cooperative purchasing procedure set up by the Minnesota Department of Administration. The State of Minnesota does not act as a middleman in any way, but merely adds a clause to many of their negotiated contracts to allow local government agencies to purchase on the same basis as the state. Such items are made available on a voluntary basis to local governments which are encouraged to compare prices with the state's, and if a savings can be realized, purchase through the state's contract. A similar program in Illinois reported substantial increases in participation and savings by local governments taking advantage of state contracts. In a recent issue of the Journal of Purchasing (August 1972), intergovernmental cooperative purchasing has been heralded as a "Wave of the Future" with the successes of such a program in the metropolitan Washington, D. C. area.

In a book "State Technical Assistance to Local Governments," published in 1962 by the Council on State Governments, purchasing goods directly for local governments was proposed as one of the obvious ways that state government could assist local governments. According to this book, such programs were at that time operating successfully in the states of New York, Alabama, Virginia, North Carolina, and Georgia.

Our questionnaire disclosed that in Montana a first class elementary district and a high school district in the same city purchase separately and pay different prices for the same items, as shown in the following schedule:

<u>Item</u>	<u>Unit</u>	<u>Elem. Dist. Price</u>	<u>High School Dist. Price</u>
Ditto Paper, 8-1/2" x 11"	Ream	\$0.80	\$0.8673
Ditto Paper, 8-1/2" x 14"	Ream	1.02	1.07
Ditto Paper, colored, 8-1/2" x 11"	Ream	0.85	0.94
Ditto Masters	100	2.25	2.05
Stencils	Quire	3.00	2.85
Beginners' Pencils	Dozen	0.75	0.40
Letter Size Folders	100	1.94	3.40

The difference in prices obtained by the two districts was due to the quantity ordered. Since the paper was supplied to both districts by the same supplier, we discussed the prices of the paper supplies with the supplier and were informed that the school districts could have saved 6¢ per ream of paper ordered if they had ordered jointly. So there is no doubt that at least on certain items cooperative purchasing among school districts could save money for those districts.

State purchasing uses two major methods of obtaining items for state agencies. Both of these methods, discussed below, combine the needs of the state agencies and utilize competitive bids.

The Purchasing Bureau of the State Department of Administration utilizes the open-end contract purchasing method in bidding various supply and equipment items. This method allows the purchaser to obtain an unlimited supply at a contracted price for a specified period of time. Under the second method used to obtain motor vehicles, paper, office equipment, and furniture, the Purchasing Bureau obtains bids on such items in certain quantities at certain intervals during the year. The prices obtained by the state could be made available to school districts in the same manner as they have been in other states.

The statutes governing state purchasing do not require, authorize, or prohibit the State Purchasing Bureau from purchasing for school districts. We believe that the State Superintendent's Office should consult with the State Department of Administration and the Attorney General if necessary, to determine whether specific authorization is needed and, if it is, request the necessary statutory changes.

The Montana League of Cities and Towns has recognized the economics of cooperative buying and is currently working with the State Purchasing Bureau to develop a system to include cities and towns on state bidding. So far, only one city has taken advantage of state bids. They are on the open-end lamp (light bulb) contract with the state and receive 51% off list price, plus a 10% 20-day discount. One first class school district we noted is purchasing their lamps and light bulbs at 35% off list price, plus a 5% 20-day discount. This particular school district purchased \$1,509 worth of lamps and light bulbs during the 1971-72 fiscal year, whereas if they had been purchased through the state contract, the school district would have saved \$439.

Another school district receives a 45% discount on their lamp purchases. One of the district's contracts was for \$6,493, less 45%, or \$3,571. The school district could have purchased the lamps through the state and saved approximately \$700 on this particular purchase. Currently the district's lamps are delivered at one location. Under the state contract, the lamps can be delivered to any location within the state F.O.B. that location, so there is no greater inconvenience to a school district to purchase on the state contract.

Our questionnaire disclosed that many schools do a large percentage of their purchasing directly without obtaining competitive bids, so it is likely that many school districts pay the full price for lamps and light bulbs.

During our audit we contacted several vendors to determine the ramifications of including school district purchases in the state bid. From their responses we concluded that they are interested in bidding on school district supplies and that the prices in some cases would be lower than the current state prices, due to the increased volume. None of the vendors we contacted felt the added purchases would increase state bid prices.

The vendors contacted bid open-end supply contracts with the state, i.e., they bid a percentage discount from the United Stationers' catalog for all office supplies the state agencies need to purchase throughout the year.

Another reason for consideration of cooperative purchasing techniques is that many school districts lack the professional staff to insure that the quality of purchases are adequate. They also lack the size to realize the economic advantages of volume buying. The State Purchasing Bureau has the qualified personnel to achieve substantial purchasing benefits. Purchasing through the State Purchasing Bureau can also provide the volume of purchases needed to obtain the advantages of volume buying.

One of the major reasons for the lack of utilization of state purchasing for local governmental units, according to the Council of State Governments ("State Technical Assistance to Local Governments," 1962) is that the local units often consider this an interference. Local units prefer to use local sources of supply because they consider it a vital part of their local domain, according to the Council of State Governments. Our questionnaire disclosed that 20 out of the 30 school districts that responded do less than 50% of their purchasing from local sources, so this should not constitute a significant obstacle in Montana.

In summary, since each school district varies greatly in size, the vast majority of them being small, cooperative or centralized purchasing

by school districts is necessary to achieve a large volume buying with its resulting lower unit prices. Centralized purchasing will make available to school districts purchasing expertise that the majority of them cannot otherwise afford. The state has the mechanism and the expertise necessary for such a program for the school districts. We believe the state should provide to school districts its purchasing services. This could be done by identifying similar items that are purchased in school districts, developing specifications for such items, and including them in bid requests sent to vendors. The precedence has already been set by the League of Cities and Towns on certain products, and a logical extension of such services is to school districts. We believe the Superintendent's Office should evaluate purchasing functions in school districts to determine what items could be purchased at a cost savings through the centralized state purchasing function and coordinate such purchasing with the school districts and the State Department of Administration.

RECOMMENDATION

We recommend that the State Superintendent's Office, in consultation with the State Department of Administration:

- 1. Evaluate purchasing practices in school districts to identify items that can be purchased at a cost savings through the centralized state purchasing function.*
- 2. Request any needed legislation to permit school districts to utilize the centralized state purchasing function.*
- 3. Coordinate such purchases with the school districts and the Department of Administration.*

SCHOOL INSURANCE

Various provisions of state law require or authorize school districts to procure insurance coverage for the plant, property, and personnel of school districts. Section 75-8212, R.C.M. 1947, stipulates that "The trustees of any district shall have the authority and it shall be their duty to insure any or all real and personal property of the district." Section 75-5939, R.C.M. 1947, states that "The trustees of any district may purchase insurance coverage for the district, trustees, and employees against liability for the death, injury, or disability of any person or damage to property." As a consequence, school districts must purchase property insurance and may purchase liability insurance.

Our examination of potential areas where the State Superintendent's Office could assist school districts disclosed that:

1. Insurance of one form or another is purchased by all school districts.
2. The methods and means used to acquire insurance vary from school district to school district.
3. Insurance costs are significant across the state.
4. Considerable savings and benefits could be attained if school districts were provided assistance and guidance in the purchase of insurance.

Annual trustee reports submitted to the Superintendent's Office by Montana school districts disclosed that all school districts purchase various types of insurance and that the costs of this insurance during recent years has been as follows:

<u>Year</u>	<u>Cost to School Districts</u>
1970-71	\$2,759,979
1969-70	2,147,979
1968-69	1,638,755

Because of the manner in which insurance costs are reported to the Superintendent's Office, information is not available to show how much was paid for the various types of insurance, such as property, liability, and health insurance. As a means of analyzing insurance acquired by school districts, we asked selected school districts for information about fire insurance on their property. The following table depicts the results of our questionnaires:

<u>Class of School Districts</u>	<u>No. of School Districts In Sample</u>	<u>No. of School Districts Responding</u>	<u>Annual Premium For Fire Insurance</u>
First	15	11	\$276,948
Second	13	9	37,905
Third	38	11	12,577

Our evaluation of the questionnaires and discussions with various school district officials disclosed that the manner and methods in which property insurance is purchased differ among school districts. In some instances, school districts seek competitive bids for insurance coverage, while in other instances, property insurance is acquired by school districts through local associations of independent insurance agents. The insurance provided by the local associations is based upon rates set by a central insurance services office located in Great Falls. In this regard, we were informed that independent agents and participating insurance companies can provide the insurance coverage at the established rates, or, if they choose, can deviate from the established rates.

Some school districts do not seek insurance through competitive bidding, but rather purchase their insurance directly from local insurance agents or the association of independent insurance agents. Other school districts have found considerable savings by obtaining competitive bids on their insurance. For example, during the 1972-73 fiscal year, one first class school district obtained bids for a blanket policy on fire, liability, and casualty and boiler insurance, for a total cost of \$22,912. In seeking these competitive bids, the school district prepared detailed specifications upon which the bids were solicited. As a means of comparing the rates obtained by the school district with those rates established by the central insurance services office, we engaged the assistance of the Insurance Division of the State Auditor's Office. We asked the Insurance Division to examine the specifications and coverage obtained by the school district and compare the rates. This comparison disclosed that the coverage obtained by the school district through competitive bids at a cost of \$22,912 would have cost \$37,938 if purchased through an association using the central insurance service rates. As a consequence, over \$15,000 was saved by competitive bids.

While the foregoing illustrates that competitive bids may result in lower insurance costs, we found that other factors must be considered. Officials of several school districts that did not solicit competitive bids informed us that the reason for not doing so was that no one employed by the district considered themselves an insurance expert, and they felt that it would take too much of their time to draw insurance specifications. The officials also informed us that they relied upon their independent agent to determine the insurance needs and, as a consequence, did not seek bids. Consequently, some school districts which apparently have insurance expertise seek competitive bids, while many other districts do not because

of the absence of insurance expertise. This illustrates, in our opinion, a need for assistance and guidance in the area of insurance acquisition. In this regard, the State Department of Administration, Architecture and Engineering Division, purchases insurance for state owned property which, in many cases, is not unlike school property. We believe they could, if properly arranged, provide the expertise for the purchasing of insurance for school property in school districts.

In summary there are in excess of 700 school districts in Montana, each endeavoring to fulfill the requirements of the law regarding insurance coverage, most without the necessary expertise or guidance. Consequently, some school districts obtain their insurance one way, while others go about it another way; however, all individually and with some obtaining better rates than others. The state, on the other hand, does have expertise in obtaining property insurance, and obtains property insurance on all state buildings.

We believe the Superintendent's Office should consult with the State Department of Administration and initiate a program to aid school districts in obtaining property and liability insurance as economically as possible. This assistance could consist of assisting in establishing the districts' insurance needs, drawing up specifications for insurance coverage, and aiding the districts in identifying and obtaining the insurance they need.

RECOMMENDATION

We recommend that the Superintendent's Office consult with the State Department of Administration to develop a system of providing assistance to school districts in identifying and obtaining property and liability insurance.

FIDELITY BONDS FOR SCHOOL DISTRICTS

Fidelity bonds are not required by law for school districts as they are for all state, county, and municipal officials and employees, even though school districts are vulnerable to embezzlement and defalcation as are the state, county, and municipal agencies.

Our review of fidelity bond coverage in school districts disclosed that many school districts are not providing sufficient coverage. The amount and extent of fidelity bond coverage reported by school districts responding to our questionnaire varied significantly. The following table shows the number of school districts providing and not providing fidelity bond coverage.

<u>Type of District</u>	<u>Number Responding</u>	<u>Number Providing Coverage</u>	<u>Number Not Providing Coverage</u>
First Class	11	11	0
Second Class	9	8	1
Third Class	14	3	11

As shown above, some school districts do not provide any fidelity bond coverage, yet presumably their needs would be the same in terms of risk as those districts which provide coverage. Although the amount of coverage necessary varies, depending on a number of factors, there can hardly be situations where zero coverage is appropriate. In this regard, the questionnaires also reported significant variations in the amount of coverage provided. For example, in first class districts the coverage ranged from \$2,500 covering each of 1,300 employees in one district, to \$25,000 in another district for the district clerk alone and, in another district, all other employees were covered for \$10,000. In one second

class district, \$27,500 coverage was provided for two employees, while in a similar district two employees were covered for only \$2,000 each. In our opinion, these variations demonstrate that the amount of coverage is not necessarily proportionate to the districts' needs and that some guidelines need to be established.

In addition to variances in coverage, there is some evidence to indicate that the amount of coverage provided is not sufficient to cover the loss through defalcations or embezzlement. For example, in four cases where defalcations recently occurred, none of the school districts involved had enough coverage to offset the loss. Fortunately, in three of the four cases restitution was made by the individual. In these three cases the total amount of the defalcations involved was \$9,926. These school districts had fidelity bonds totaling \$5,500. Consequently, had the individuals been unable to return the money, the school districts would have lost \$4,426. In the one case where the restitution has not been made, the total loss was \$28,519, and the fidelity bond was only for \$5,000, leaving a total loss to be absorbed by the school district of \$23,519.

As is the case with property insurance, discussed previously, we believe guidelines and assistance are also necessary in the area of fidelity bond coverage. Assistance in this area would aid school districts in the determination of adequate fidelity bond coverage as well as the employees who should be covered.

Adequate coverage, in addition to low cost, could be attained through the use of a statewide blanket fidelity bond covering all school districts. As previously mentioned, virtually all state, county, and city officials and employees must be covered by fidelity bonds. State employees are covered

under a blanket bond administered by the State Department of Administration. Blanket bonds acquired, issued, and administered by the state would relieve the school districts of the administrative burden and assure adequate coverage. In addition, economies should be realized in the way of lower premiums, because of the larger number of employees covered under one bond, and the opportunity for competitive bidding. We believe that the possibility of a statewide or regional-wide blanket bond concept should be explored by the Superintendent's Office.

RECOMMENDATION

We recommend that the State Superintendent's Office consult with the State Department of Administration to:

- 1. Provide guidelines to school districts for determining the extent of fidelity bond coverage necessary.*
- 2. Consider seeking legislation requiring school districts to obtain fidelity bond coverage for selected employees and officials.*
- 3. Explore and implement, if feasible, a statewide fidelity bond covering the appropriate employees and officials of all school districts.*

OTHER AREAS OF POSSIBLE STATE ASSISTANCE TO SCHOOL DISTRICTS

In addition to the foregoing, we noted other administrative areas in which the Superintendent's Office could provide services. Although our review of these areas was limited, we believe each of these areas warrants further consideration by the Superintendent's Office.

Computer Service

The Superintendent's Office presently provides "class scheduling" services free to any schools that request such service. In 1972, the Superintendent's Office performed class scheduling services for 76 schools in the state. Although this is the only data processing service that the Superintendent's Office provides to schools, there are a number of other computer services that are available and could be used by schools in the state.

Our questionnaire sent to selected school districts requested information on computer services. The results of our questionnaire disclosed that of 11 first class schools responding to the questionnaire, all used a variety of computer services. Three of these schools owned their own computer, and five purchased their services from a commercial enterprise. Two of the schools that owned computers also leased facilities or purchased services from a commercial enterprise. The remainder of the first class schools used the Superintendent's services in class scheduling only. Seven of the first class schools expressed an interest in additional services that could be provided by the Superintendent's Office. Most of the second class schools responding to our questionnaire also used the Superintendent's Office computer for class scheduling. Eight of the nine schools indicated that they had other areas where data processing services could be used.

We made a review of the Superintendent's data processing program and have reported upon that review in another separately issued report entitled, "Report on Examination of Internal Administration" of the State Superintendent's Office. In that report, we comment on the fact that the computer

should be utilized more hours than the present workload of about eight hours per day. We also pointed out various other applications that the computer could be used for, particularly in relationship to school districts in such areas as:

I. Pupil Personnel System:

- a. Time and attendance reports.
- b. Test scoring.
- c. Grade reporting.

II. Accounting Services.

III. Computer Training.

The foregoing applications, combined with the fact that some school districts now purchase computer services commercially, illustrate that greater use can be made of the Superintendent's data processing facilities. In this regard, we believe the Superintendent's Office should make a study of potential computer applications for school districts and make such services available to school districts.

Architectural and Engineering Services

Another area in which the Superintendent's Office could be of service to the school districts is that of architect and engineering services.

Section 75-8206, R.C.M. 1947, requires the Superintendent's Office to review the plans and specifications of proposed new schools for the purpose of assisting the districts in designing facilities for optimum utilization.

At the present time, plans are submitted for approval to the Superintendent's Office but no architect's services are provided to school districts. We were informed that the Superintendent has unsuccessfully requested financing in the past for an architect to help schools in planning new buildings.

During the current biennium, the Legislative Council, in response to House Joint Resolution #50, made a study of the feasibility and potential cost savings of establishing standard statewide plans for the construction of schools in Montana. The study, which is to be presented to the 43rd Legislative Assembly, pointed out that, based upon the past three years' experience, an average of seven major school buildings are designed in Montana annually. The Council concluded that school districts lack the planning expertise for educational facilities, and the present state review of school district construction plans is inadequate. The study recommended that: (1) the Superintendent's Office investigate means of providing an educational consultant service, including a construction planning service, to school districts, (2) the State Department of Administration devise a method of independent, full-time inspection of school construction and other municipal construction projects, and (3) the responsibility for review of school construction plans be centralized within the Architecture and Engineering Division of the State Department of Administration.

Because of the Legislative Council's involvement in this area, we limited our review of this area to the questionnaires sent to selected school districts. The questionnaires returned to us disclosed that 20 of the 29 schools responding indicated an interest in state architectural and engineering services.

In view of the interest indicated by school districts, and the results of the Legislative Council study, we believe the Superintendent's Office should study the needs of school districts for architectural and engineering services relative to school construction. In this connection, the State Department of Administration has architecture and engineering capability and expertise. We believe that the utilization of these personnel should be considered.

Other Services

There may be other areas of administrative endeavor that the school districts need state assistance. Our review was limited to the above areas, but we do not imply that these are the only areas in which state assistance may be needed. We believe the Superintendent of Public Instruction should pursue an active program of administrative assistance to school districts in areas such as those discussed in the preceding paragraphs.

RECOMMENDATION

We recommend that the Superintendent's Office consult with the State Department of Administration to:

1. *Identify those areas where administrative and technical services can be provided to school districts by the state.*
2. *Devise the procedures necessary to deliver these services to school districts.*

CONCLUDING COMMENTS

The comments and recommendations in this report have been discussed with the State Superintendent of Public Instruction and appropriate personnel on her staff. We have also discussed the same material with various personnel in the State Department of Administration. We thank these officials and their staff for their cooperation and assistance.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett
Legislative Auditor

December 11, 1972

